The CHARTIERS VALLEY Source™

Insurance

By Daniel L. Henry

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Your Money and Your Life

In the Dec/Jan 2008 issue, I noted how important it is to get the proper amount of life insurance. As an example, I used John, who earns $150,000 per year. If he died, his family would need $2,200,000 to cover mortgage and college costs and generate $90,000 of income per year. The amount of coverage was equal to 15 times his earnings, which is a good rule of thumb. Continuing with our life insurance theme, what popular types of insurance policies are available to John, and at what cost?

Term Life Insurance

Term life insurance is pure coverage, without frills. It provides death benefit protection only, for a specific period of time, without any investment or "cash value" component.

Die during the coverage period and your beneficiary receives the proceeds. Statistics reveal, however, that only 1 percent of term policies purchased result in a death benefit.The other 99 percent are canceled or converted before death occurs.

Yet, if needed, for a fairly low premium, a large sum of funds can be delivered to your loved ones. Term coverage is available for periods ranging from one year to 35 years. Most policies offer a conversion feature that allows the insured to switch from term to a permanent policy, without submitting evidence of insurability.

Why consider term insurance?
People usually have three reasons:
• They can't afford permanent coverage, even if desired.
• They can afford permanent coverage, but choose to buy a less-expensive term policy and invest the difference, i.e., create their own disciplined and systematic investment plan (at least that is the intention).
• The need for coverage is short. For example, insurance needed for a five-year period to cover a loan.

Permanent Life Insurance
If term is analogous to "renting" a policy, permanent life insurance is akin to "owning." Permanent coverage, which involves a substantially higher premium, at least initially, provides coverage for life and normally contains a "cash value" reserve. This reserve, subject to some potential restrictions, would be available during one's lifetime for borrowing or liquidation purposes.

Here are three popular permanent policy types:Whole Life (WL): The insured pays a fixed premium, and the policy provides a death benefit and a cash value feature. The insurance company selects how the premiums are invested, and to the extent that their investments perform well and the mortality risk expenses are low, dividends might be paid to augment the cash value growth and/or reduce the premiums you need to pay in the future.

Universal Life (UL): Similar to WL, but with one key difference: the insured gains flexibility in making premium payments. The death benefit may increase or decrease based on the amount of premiums paid and interest earned. With this flexibility comes the risk of the policy lapsing due to insufficient funding.

Newer versions of UL, referred to as Guaranteed or No-Lapse UL, provide the insured with certain assurances that the policy will never lapse, providing certain minimum premium payments are met.

Variable Universal Life (VUL): Similar to UL, but with one major difference: the insured chooses how to allocate premium payments into a wide variety of investment options. Thus, it has the potential to outperform UL, even as a stock may have the potential to outperform a bond. Yet, if the investments selected do not perform well, the policy could be in jeopardy of lapsing.

Which is right for you?
Term and permanent life insurance each have unique advantages and disadvantages. Sometimes a combination approach is best, providing a base of permanent, long-term coverage, overlaid with lower cost and temporary protection.

As always, a professional should be consulted, preferably one who is independent and has many insurance companies available to choose from. Remember, when considering outlays for life insurance, there is a cost to buy, but potentially, a far greater cost in not buying.

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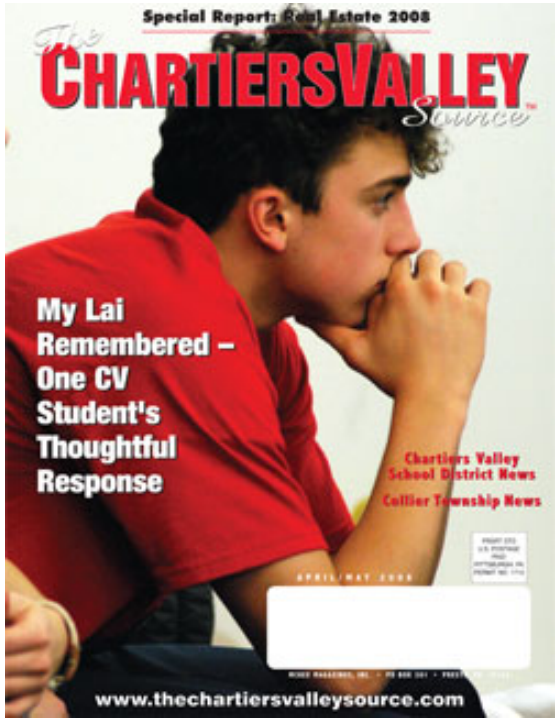

Cover Focus: Frowning with intense concentration, junior Brian Rodavich listens raptly to a Vietnam veteran recounting his experiences during the My Lai massacre

Features

Remembering My Lai

A Vietnam veteran visits Chartiers Valley high school to recount one of the darkest chapters in U.S. military history.

Unlikely Friendships

A trip to one of Africa's most desperate countries teaches a CV student that people aren't so different after all.

Officer of the Year

Scott Township's Police Department unanimously names Alan Ballo its top cop.

Special Report

Real Estate 2008

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French TV Film Crew Visits CVHS

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